Lowe's decides to double size of stores' floor space

(Continued from page 1)

Most of Lowe's stores with 30,000 square feet of selling floors have similarly sized adjacent warehouses. In the 60,000-square-foot store, the company eliminated nearly all of the storage area and uses the space for selling.

Bridgeford said that getting rid of the storage space greatly reduced "double handling" from the warehouse to the sales floor.

Margins increased because of more impulse sales of "take with" merchandise and self-service, Bridgeford said.

"If you create a true self-service atmosphere," he said, "with synergy of point of purchase display information, stocking procedures, in-stock positions and a layout that makes it easy to get around, self-service is a positive thing."

Merchandise turned more quickly than in the average 30,000-square-foot stores opened during the last three years, he continued.

Lowe's people contemplate even better results in new stores, where the merchandise assortment will grow by another 20 percent over the mix in the Knoxville prototype, Bridgeford said.

Recent changes in the product mix include dropping bikes, framed art and soft bath merchandise such as towels. The plan is to build the assortment in plumbing and other core businesses.

Sales have proved strong for Lowe's in lighting, millwork, water systems and plumbing, brown goods and even lawn and garden, despite the drought.

So strong, in fact, that the company expects stores to average retail sales of more than $6 million annually.

The changes were well received by Dan Wewer, a securities analyst for Robinson Humphrey, the Atlanta investment firm.

Wewer said the company is taking the right course by enlarging stores, but he expressed doubt about the wisdom of moving into bigger, highly competitive markets and said he wondered why Lowe's still seems to lag behind some chains in switching to larger stores.

Late or not, Lowe's has secured sites for opening new stores in 1989 and 1990.

Expansion in 1990, Bridgeford said, will prove more aggressive, with the company adding "a fair amount more square footage than in 1989," Bridgeford said.

This year, the company will add 450,000 square feet of selling space by opening seven new stores, moving eight stores to new locations, retrofitting five stores and building additions to 14 stores.

Next year, Lowe's wants to expand by 850,000 square feet, including nine new stores, 12 relocations, one retrofit and two additions to existing stores.

Bridgeford cautioned, however, that next year's figures remain "hazy," with many details still under negotiation with developers.

Most of next year's expansion will fit the new mold of 60,000-square-foot stores, with the exception of some 40,000-square-foot variations of the new prototype for smaller markets.

Lowe's will build about 60 percent of the 60,000-square-foot stores in their larger markets, those with 65,000 or more households.

Five 60,000-square-foot stores will open next spring and summer, with one in Wilmington, N.C., and two in Ashville, N.C.

Retrofits, the company said, would require removing the wall between the warehouse and showroom and adding more racks. The process should take about six months per store.

However, Lowe's will "relocate scores" of smaller stores, which has proven more successful than enlarging older stores, Bridgeford said.

The company might use some of the older stores as distribution sites for contractors, but that decision will depend upon each market.

To expand, Lowe's will lease more sites than in the past. The company now owns 70 percent of its stores.

"We are not so interested in owning as we are in opening large stores," Oxford said.

Opening bigger stores will cost about 10 percent more than the old 30,000-square-foot units, Bridgeford said.

Extra showroom fixtures account for most of the difference in start-up costs, he said.

Construction costs typically reach about $1 million per store with a small percentage more for fixtures, Lowe's executives said.

Land costs for the necessary eight to 10 acres usually range from $1 million to $2 million, depending upon the market. Inventory totals about $1.5 to $1.6 million.

Despite the expansion, the company expects capital expenditures to dip in 1989.

Next year's expected capital outlay of more than $100 million will fall short of the $140 million of recent years, much of which paid for a new DC and improvements in computer systems.

Stanley executives go back to school

(Continued from page 7)

ley has, but it does hire interns to work in the marketing department. Scott McGurn, marketing analyst at Cooper, said there are several advantages to working with college interns.

Obviously, the internship helps the marketing student in setting up his career, and working inside a company is an ideal way to do it, McGurn said. "It's 100 percent better than working at 7-Eleven."

Some of the advantages for the company are that it makes a contribution to the community, it saves on costs by not paying certain benefits which full-time employees receive and it provides the company with fresh ideas, McGurn added.

Local colleges which Cooper has worked with include the University of North Carolina and Meredith College. It has also worked with some international students.

In another instance, the Virginia Polytechnic Institute and State University of Blacksburg, Va., have worked with Lowe's, the North Wilkesboro, N.C.-based home center chain with 298 stores. Barry Reece, a professor of marketing education at Virginia Polytechnic, worked with Lowe's in its training department.

A Roanoke, Va., high school teacher assisted Lowe's in shrinkage control after overseeing one of his students who had worked with Lowe's in marketing.

Other schools enjoy the idea of working with the home improvement industry, but do not have the resources or are faced with geographic limitations. "It's hard for a school to initiate when we don't know what's out there in terms of companies and their products," said Doyle Weiss, head of the marketing department at the University of Iowa.

Also, schools often do not have the needed contacts, according to Fred Smith, professor of marketing at the University of Oklahoma. He added companies do little recruiting in that area of the country.

Back at U Conn, Stanley returned two weeks later to listen to the students' presentations and will study them, for possible future use. "We'll be implementing some of their ideas," said Scott Bannell, vp-marketing for Stanley. "And perhaps something we did or said will inspire them as they begin their career. Who knows, it may even be in the do-it-yourself market."

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National
Home Center News

Vol. 14, No. 20 $2 a copy The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc. Oct. 3, 1988

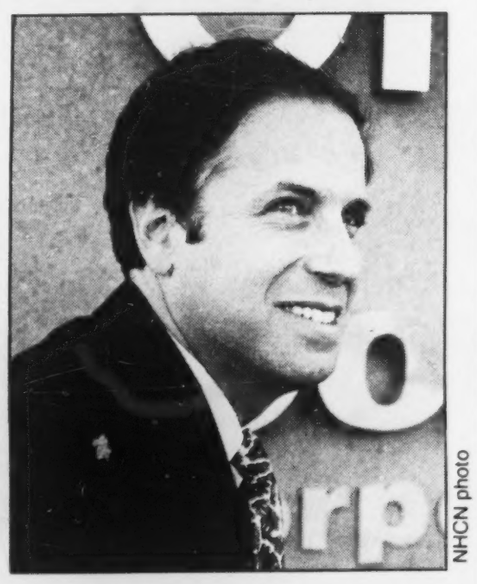
Going private will give Coast big cash infusion

By Edward McKinley

NEW YORK — CoastAmerica could grow prodigiously with a cash infusion of nearly $37 million from a deal proposed by an investment firm based here.

Warburg, Pincus Capital Co., L.P. has offered to pay the Denver-based franchised wholesaler that amount for 4.3 million shares of its stock.

By paying $8.50 per share for stock that was trading at $6.50 before the announcement, Warburg would take control of about 47 percent of the company, said James R. Holland Jr., Coast's executive vp and cfo.



NHCN photo

Richard Bard, Coast's chairman and ceo, has been named to evaluate proposals for taking the company private.

Because the remaining 63 percent of the company's 10.4 million shares of outstanding stock rests in the hands of a few people and companies, Warburg's move, in essence, would take the company private, Holland said.

The deal does not constitute a takeover and would inject cash into Coast, rather than create the massive debt associated with leveraged buyouts, Holland said.

(Continued on page 90)

Retailers hope fall promos will bury bad summer sales

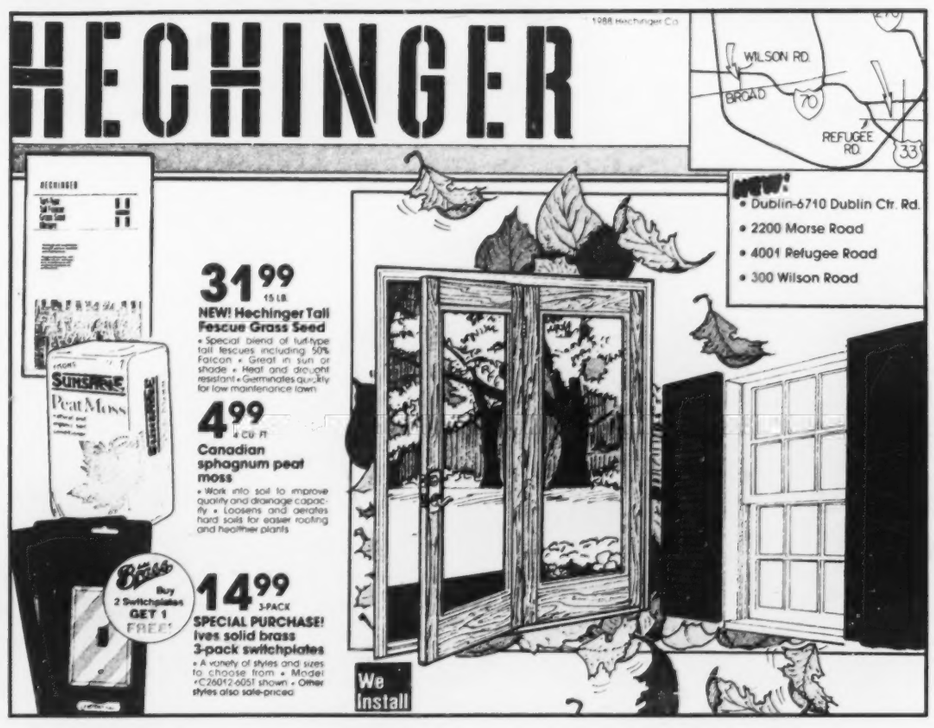
By Roman Czajkowsky
Special to NHCN

NATIONAL REPORT — Retailers and suppliers are employing heavy fall promotions that they hope will produce robust sales over the next several months to compensate for business that got scorched during this summer's drought.

Insulation, heating, ceilings, tools and outdoor power equipment are among the categories appearing more frequently in dealers' fall ads.

And while it's too early to tell what the season's hot sellers will be, one normally slower mover at this time of year—exterior paint—might have a strong showing, according to early indicators.

"Retailers are saying that Labor Day was very good for sales of exterior paint, and that's a signal for what might lie ahead," said Bob Erickson, director of sales and marketing for Dutch Boy, the Cleveland-based paint manufacturer, which has put together an extensive institutional TV ad campaign.



This insert for Hechinger plays up the autumn theme with fallen leaves decorating the ad. Part of the insert, looking ahead to winter, features fireplace maintenance kits

"We feel there's a pent-up demand that is coming out right now," added Charles Carpenter vp-marketing services for The Glidden Co., also in Cleveland.

(Continued on page 89)

Future glows for sales of radon test kits

By Elizabeth Brent

NATIONAL REPORT — Suddenly radon testing kits are the hottest product on the shelf.

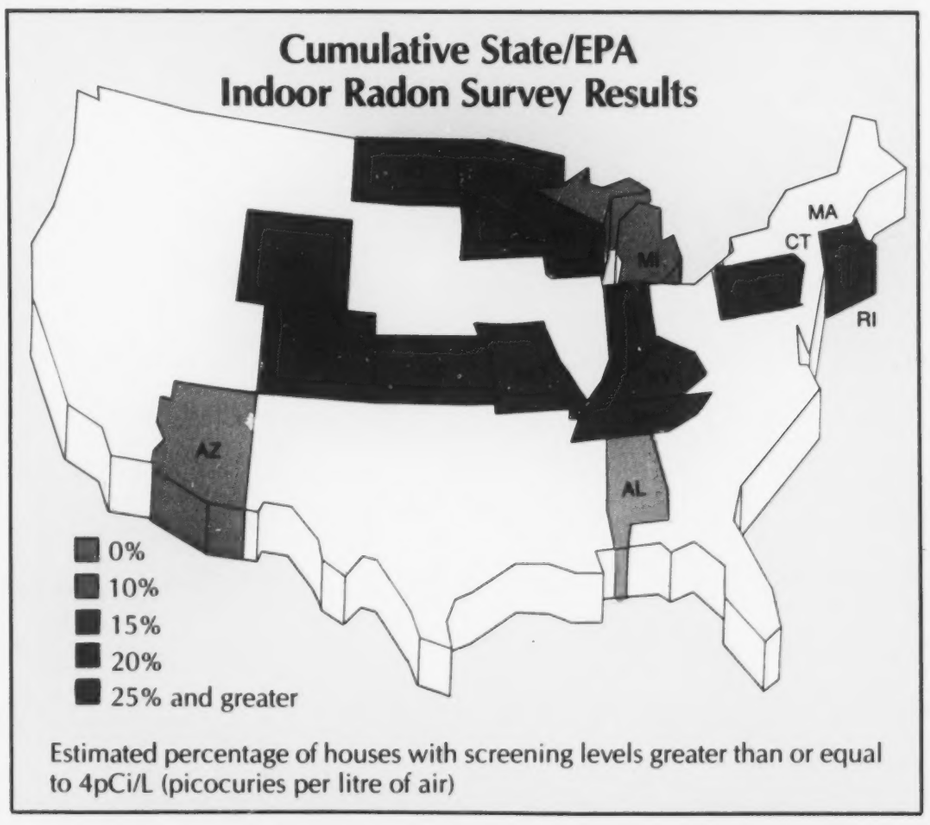
Skeptical retailers who a year ago viewed the product as a passing whim are now placing orders, while others are rapidly moving the products up to the checkout counter.

Merchandising

Today, Triangle Building Centers, Barrons Gaithersburg Lumber, Hechinger, Busy Beaver and the hardware co-ops Cotter & Co. and ServiStar are among the growing number of home centers carrying the product.

Cotter, whose dealers operate under the True Value logo, switched from special order-

(Continued on page 90)



Test results from the EPA survey represent screening measurements and should not be used to estimate health risk. Also, the values might not represent all homes in each state. Some states that conducted their own surveys are not shown on this map.

Kidder Peabody acquires all Lloyd assets for $25 million

By an NHCN staff editor

DANBURY, Conn. — Lloyd Home & Building Centers was sold to Kidder Peabody & Co., the New York based-investment banking firm, on Sept. 8 for $25 million, according to sources familiar with the transaction.

An official with the investment firm would neither confirm nor deny that the purchase was made. But *NHCN* has learned that Kidder will acquire all of the net assets of the 34-unit Lloyd, subject to the negotiation and execution of a definitive purchase agreement.

(Continued on page 92)

Retailers luring new homeowners through direct-mail coupon offers

By Tom Bagsarian

NATIONAL REPORT — When new homeowners move into a new neighborhood, finding the right schools, supermarkets and a good doctor can be a time-consuming ordeal.

But in many markets, homeowners in search of a home improvement center need look no further than their mailbox.

Only days after Lucinda Shields moved into a new home in Charleston, S.C., last November, she received a coupon from the local Lowe's that she exchanged for a free garden rake.

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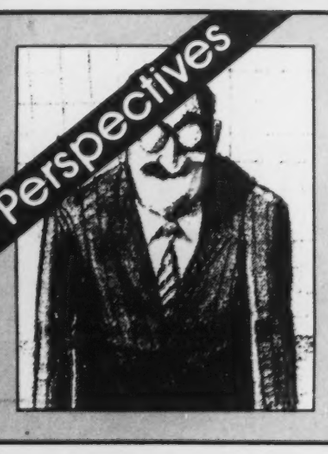

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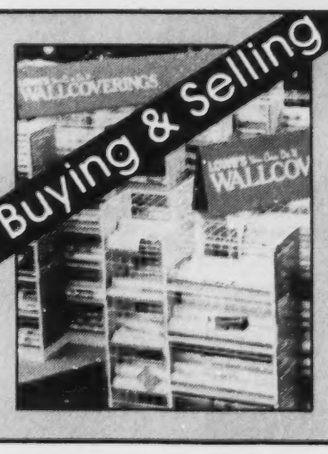

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NEWSBREAKS

BUILDER MARTS OF AMERICA SPINS OFF RETAIL CHAIN, NAMES NEW PRES.: Its 14-unit Builderway will now operate separately from the dealer services group to remove conflict of interest problems. Don Huston, president of the Greenville, S.C.-based chain, plans growth by acquisition within its five-state trading area. Paul J. Dodge, who ran BMA's dealer division, was named president of the entire company, replacing long-time president Clarence Bauknight, who remains chief executive.

INDUSTRY UPDATE

2nd Office Square opens in Nov.

TROY, Mich.—K mart's second Office Square—a new warehouse-style office supplies format—will open in November in Morton Grove, Ill. The first Office Square opened Aug. 3 in Palatine, Ill.

Each store contains about 25,000 square feet of selling space and features office supplies, furniture and business equipment discounted at 10 percent to 50 percent off manufacturer's list prices.

Office Square is being developed by Builders Square, Kmart's San Antonio, Texas, subsidiary.

Builders Design buys two firms

RADNOR, Pa. — Builders Design signed definitive agreements to acquire Carpet Barn, a Nevada-based carpet company, for $7.5 million, and Carpita Corp., a Canadian floor covering retailer, for $38.8 million (Canadian).

Las Vegas-based Carpet Barn in its latest fiscal year earned $2.5 million on $15.2 million sales. Robert Salyard, chairman of Builders Design, said the Carpet Barn acquisition "represents another important step in expanding the Builders Design network of home decorating businesses in the West."

Carpita has 45 showroom and warehouse locations throughout Canada operating under the name "Factory Carpet." Salyard said Carpita's floor coverings base will be expanded to include window treatments, lighting and wall coverings. For its last fiscal year Carpita reported sales of $120.5 million (Canadian) and pretax income of $7.8 million.

Standard Brands income falls

TORRANCE, Calif. — Standard Brands Paint Co. reported net income of $1.53 million on sales of $81.8 million for the second quarter ended July 31. For the comparable year-earlier period, Standard Brands posted net income of $5.34 million on sales of $84.5 million.

Chief financial officer Dan Bane told *NHCN* the company had no idea why Standard Brands shares had unusually heavy trading activity during the week of Sept. 11, with shares gaining about $1 in value on the New York Stock Exchange.

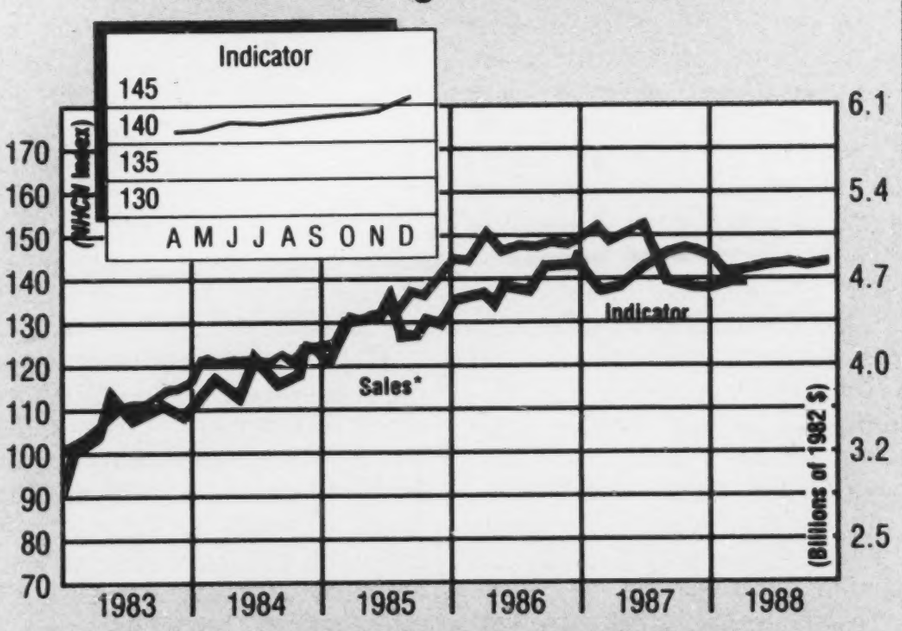
Sabbeth opens DC in south N.J.

DEER PARK, N.Y. — Sabbeth Industries has opened a sales office and distribution center in the southern New Jersey town of Toms River to establish a closer link with its customers in the region.

Stephen Sabbeth, president, said the new facility will offer the full gamut of the company's product lines including Peachtree doors and windows, framing lumber, structural panels and treated lumber.

Sabbeth said the facility will have reload capabilities.

NHCN Leading Sales Indicator



*—Monthly retail trade building materials, hardware and supplies in (1982 $).

Indicator—represents an estimate offuture building material retail sales (adjusted for inflation) relative to Jan. 1980, based on current levels of housing starts and resales, personal income, interest

The NHCN Leading Indicator is pointing to a small gain in building material sales in the fall due to improvements in resales and incomes. Business Watch highlights the increased use of adjustable rate mortgages which are keeping single-unit starts strong.

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Available for calls 9-5:30 (E.S.T.)

Tool King branches out; opens three units in Milwaukee area

By an NHCN staff editor

MILWAUKEE — Specialty retailer Tool King made its first move outside its homebase in Denver on Sept. 7 when it opened three units in and around Milwaukee.

Don Cohen, president of the five-unit chain, said the leased Milwaukee sites represented the first move in a long talked-about national expansion that could be a "150-unit chain in the next five years."

Cohen said the chain plans to add as many as 10 more units in 1989, funded by unnamed private investors. Further growth through 1993 would be financed through a public offering, he said.

(Continued on page 89)

NHCN photo

Tool King appeals to the DIYer with brand names and a lower price guarantee, says Jim Geier, Milwaukee market manager.

Investment company says West Building Materials is up for sale

By Milford Prewitt

ATLANTA — West Building Materials is for sale.

According to an investment banking source handling the sale of the 67-unit chain, a "misunderstanding about terminology" led officials of West to imply in a July press release and in subsequent interviews that only "certain assets" of the company were being sold through a private stock placement (*NHCN*, Aug. 8).

"It was clear from the language being used in your publication that there was a misunderstanding," said Nancy Broadbent, vp of mergers and acquisitions for Salomon Brothers, the New York investment firm. "We are selling the company. That's really all there is to it."

While Broadbent stressed that the company is being sold privately, the transaction is not a private placement, generally a mechanism by which privately held companies can raise capital without the disclosure requirements the SEC places on publicly held concerns.

She said there had been "strong interest" to the sale by interested parties. Because the company will be sold privately, potential buyers were carefully screened and selected by West and Salomon Brothers, Broadbent said. The potential buyers were further required to sign a detailed statement of confidentiality, agreeing not to disclose any facts from the offering brochure.

Broadbent declined to state how many potential buyers received the offering, nor would she reveal any details related to the potential worth of the company.

The company stated in its original press release that the chain was selling "certain West-owned assets" in order to expand and to roll out more versions of its superstore concept.

Whether the company's current owners—the West family—would attempt to remain in executive capacities if the company is sold is a question that could not be resolved by press time.

G. Vincent West, president, refused to respond to press inquiries after the Salomon Brothers clarification. His secretary said when there is something new to report, he would do so.

HomeClub could benefit from Zayre sale

By an NHCN staff editor

FULLERTON, Calif. — A HomeClub official expects parent Zayre Corp. to devote more resources to the warehouse home center chain now that Zayre has agreed to sell its discount-store division to Ames Department Stores in a $800 million deal.

Sean F. Lee, the newly arrived ceo at HomeClub (*NHCN*, Sept. 5), expressed exuberance about the Zayre decision to get rid of its ailing discount store chain.

"It is marvelous for us," he told *NHCN*. "We're in a much stronger position because Zayre will now give us more attention and grow its business through us."

The sale also raised the specter that yet another block of suitable real estate will be available to the home center industry in the form of Zayre leases. *The Wall Street Journal* on Sept. 16 quoted Ames chairman James Harmon as saying that between 10 percent and 15 percent of Zayre's 388 stores will be closed in the revamping.

This comes on the heels of Hechinger's purchasing the leases on 47 Bradlees Discount Department Stores on Aug. 16. Hechinger reportedly will convert about half of them to retail use and remarket the remainder.

After the sale, Zayre will own HomeClub, BJ's Wholesale Club, a 17.6 percent minority interest in Ames and an 83 percent equity interest in the TJX Companies, a collection of women's apparel retailers.

Under the agreement with Ames, headquartered in Rocky Hill, Conn., Herbert J. Zarkin will remain as chairman of Zayre Stores. He also was named an executive vp at 348-unit Ames.

Zarkin was chief executive at HomeClub from August 1986 until he returned to Framingham, Mass., earlier this year to head Zayre's discount store division. He was a 27-year Zayre employee.

In another development, Lee said HomeClub would be entering Boise, Idaho, early next year, with a 100,000-square-foot unit.

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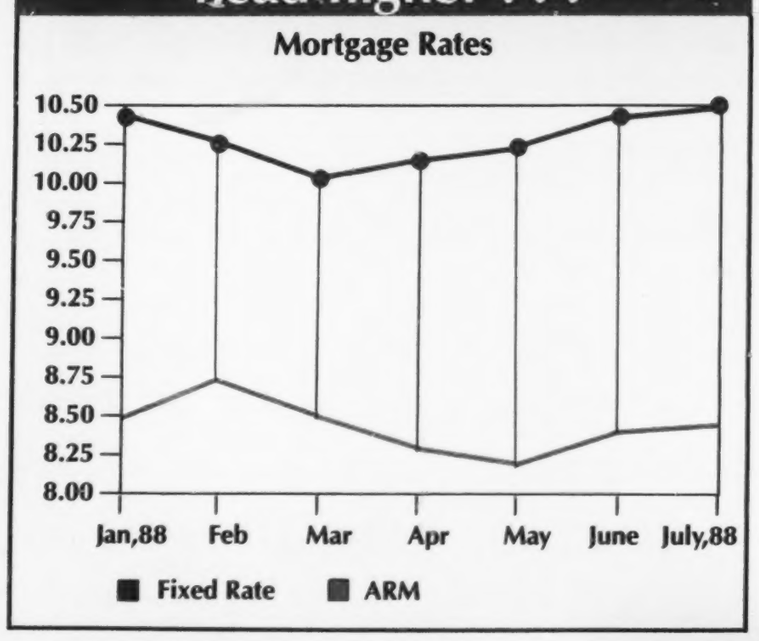
Business Watch

Section 4

As fixed rate mortgages head higher . . .



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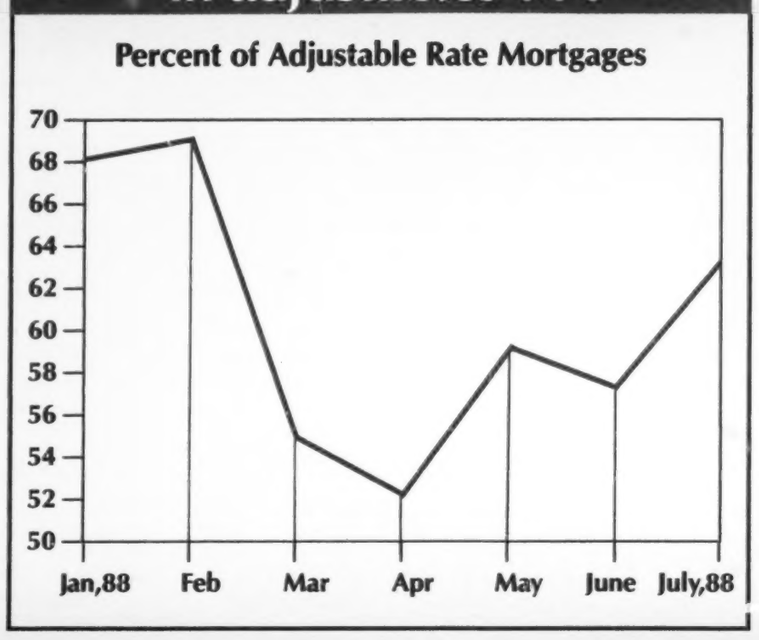

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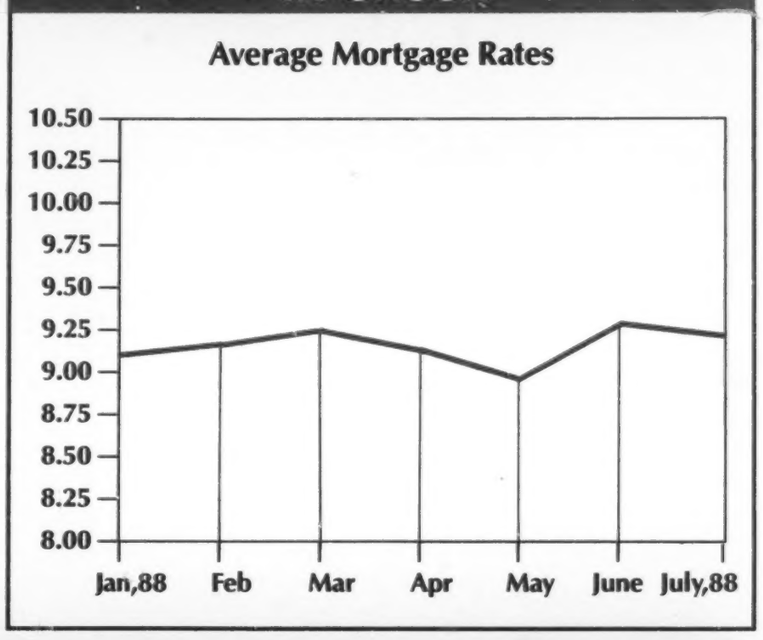


New housing starts will weather bad storms for 1989 gain

By Richard E. Mount
Special to NHCN

Single-unit housing starts continue to weather the storm of rising mortgage rates, keeping contractor building material demand up.

For building material retailers, this strength in single unit starts through next year provides a strong underpinning for sales. For 1988, we expect building material sales to rise 8.1 percent with an additional gain of 6.2 percent for 1989.

Removing the influence of inflation, unit sales will rise 5.2 percent in 1988, 1.1 percent in 1989.

Fixed rate mortgages rose from 10 percent in March 1988 to 10.5 percent in July, yet single unit housing starts remain near 1.1 million. A good explanation for this plateau in starts is the shift by homebuyers to adjustable rate mortgages (ARMs). These mortgages carry lower rates than fixed.

Richard E. Mount

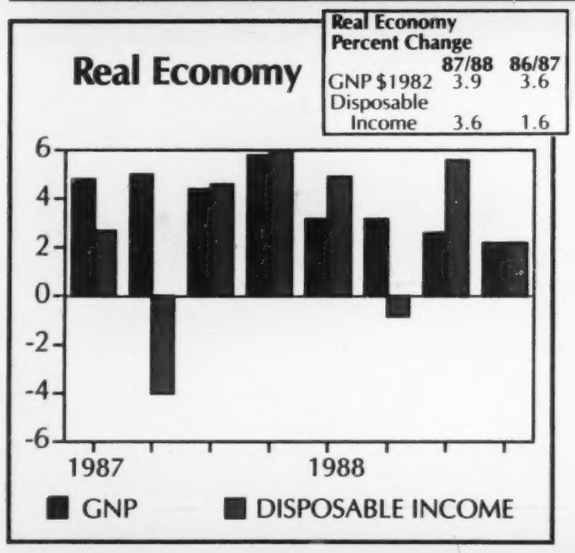
A second factor helping housing is the widening gap between fixed rate mortgages and ARMs since March. Earlier this year, the gap was 1.6 percentage points. Banks are becoming increasingly competitive for ARMs as they try to maintain mortgage market share. The current gap is slightly more than 2 percentage points.

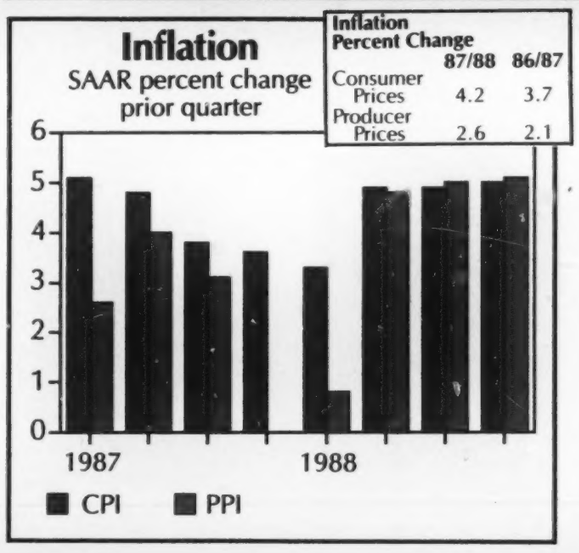
As homebuyers turn increasingly to ARMs, the average mortgage rate, including fixed and adjustable, remained stable because of the higher number of ARMs in the mix. As rates rose in July, the weighted average of fixed plus adjustable rose from only 9.15 percent in March to 9.17 percent in July.

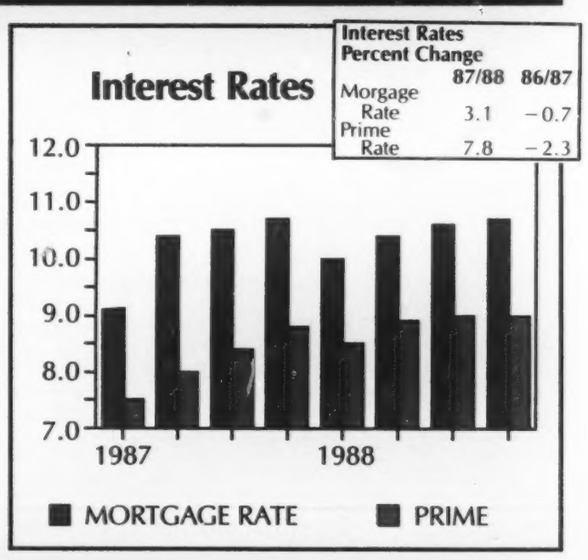
As the housing industry grapples with the twin problems of rising mortgage rates and higher home prices, the use of ARMs will help to keep single unit housing markets strong. For building material retailers, this increased use of ARMs will help to sustain sales to the contractor market over the coming year as mortgage rates continue to increase.

Richard Mount is president and chief economist with Mount Economic Consulting.

General Business Conditions







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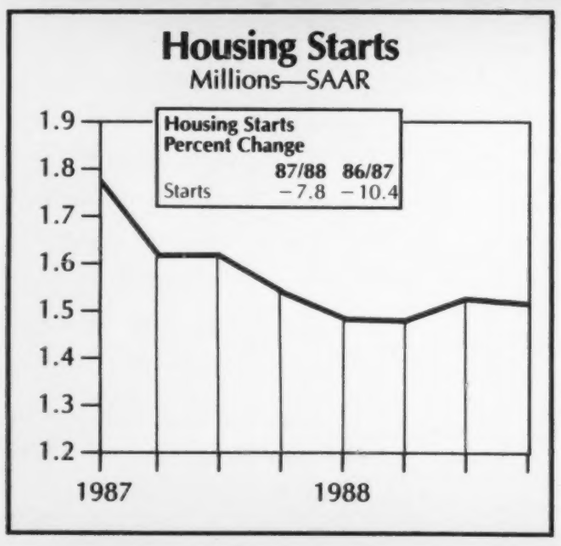

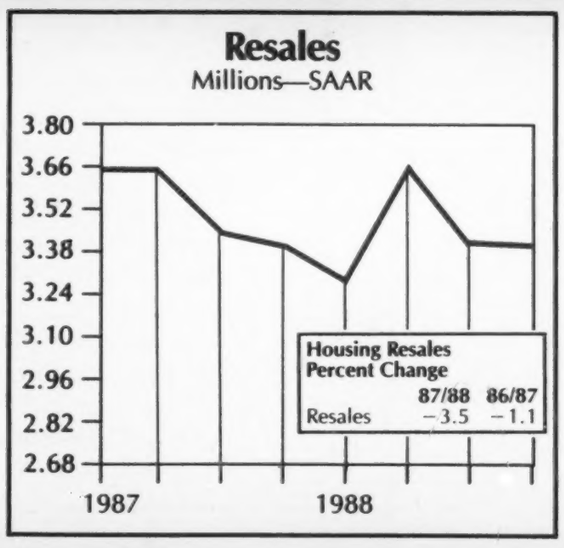

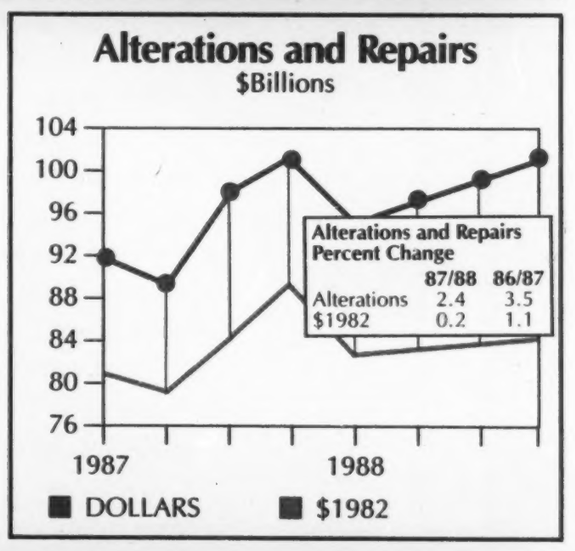

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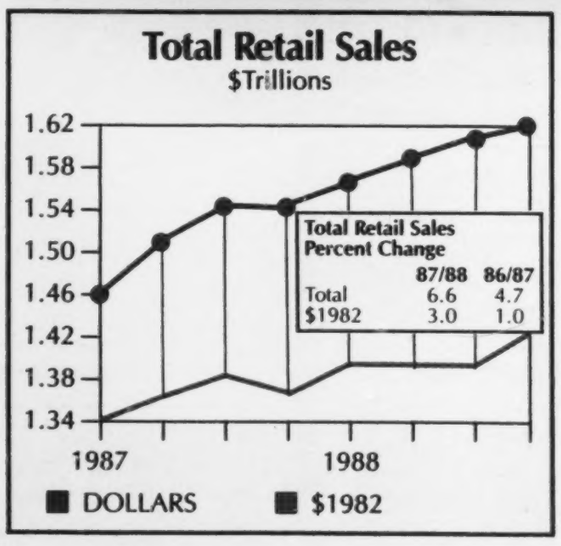

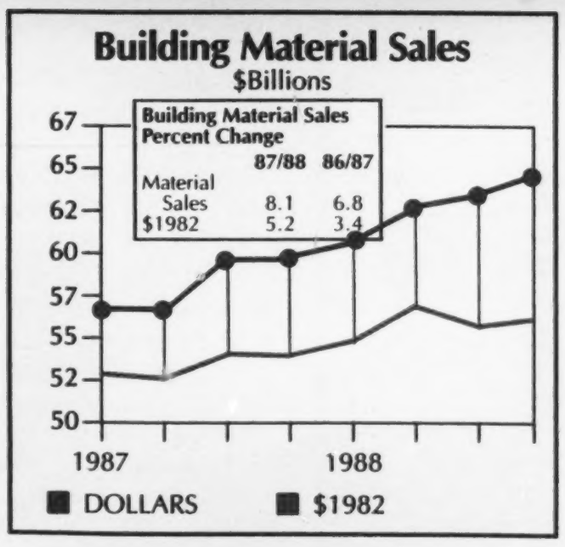

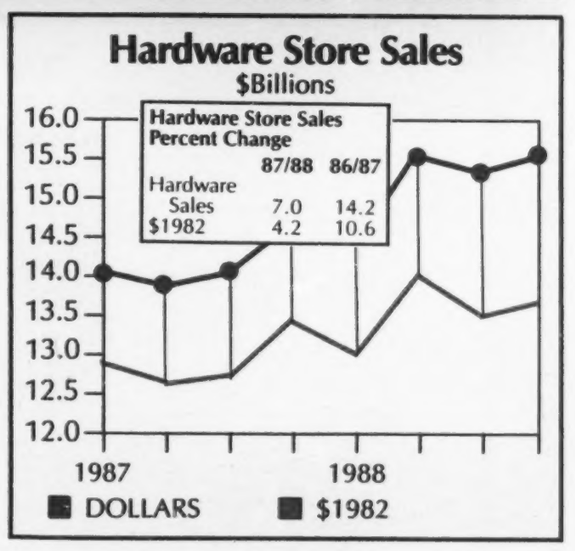

Data: Department of Commerce
Bureau of Labor Statistics
National Association of Realtors
Department of Housing and Urban Development

The Home Center Industry Outlook runs in two parts, in alternate issues. The first part includes latest data on the General Economic Outlook; Residential Alterations & Repairs; and Retail Trade Activity. The second part includes latest data on regional building material & supply store sales. The *NHCN* Leading Indicator runs every issue on page 5.

SAAR—Seasonally Adjusted Annual Rate
p—projection
NHCN chart

Retailers luring new homeowners through direct-mail

(Continued from page 1)

Although Shields was already a Lowe's shopper, she admits the offer left her with a good feeling. She purchased all of the paint for her new home from Lowe's.

Dealers agree it is to their advantage to reach out to prospective customers who move to a new home or even apartment, since they often become involved with DIY projects.

The promotions usually consist of a letter welcoming the new resident to the neighborhood and coupons for free items and a percentage off the first purchase. A letter that Builders Square sends out also includes a postscript informing the receiver of the nearest location of its store.

"It's always good to introduce people to the store and give them a good feeling so they come back," said Joe Galloway, assistant advertising and public relations director at Scotty's.

The 156-store chain based in Winter Haven, Fla., mailed 5,800 letters a month to new residents between last November and May, which contained a Scotty's credit card application. But that promotion was discontinued when it became difficult to determine how many credit card requests resulted from it, Galloway said.

Scotty's will begin another project probably this month. But this time a percentage-off coupon will be included, making is easier to track and assess the results, Galloway added.

Don Davis, corporate vp of retail sales at Lowe's, agreed it is to the chain's advantage to see how many coupons or discount certificates come back to the store.

Such discounts are not done at the 296-store, North Wilkesboro, N.C.-based chain on a company-wide basis since it is difficult to get the list in some areas, Davis said. If each individual store can obtain a list, it may be used, he added.

Finding a list of people who may have DIY spending power is the key. "Half the battle is getting the right list in a timely fashion," said Dick Hammill, vp-marketing and advertising at the Home Depot, the 88-unit Atlanta-based chain. You don't want a list of people six months after they moved in, he said. The Home Depot is another company that has used such promotions.

Lloyd Home & Building Centers, the 34-unit chain in Danbury, Conn., will look to find these prospective customers next year. Such an advertising program must be monitored closely to determine if it is cost-justified, said Ron Niemiec, director of advertising and sales promotion.

The cost of direct mailing increased 25 percent in 1988 due to postage rates, Niemiec added, which is another factor to weigh in determining if such a program is helpful.

Finding out who these new dwellers are is costly. One official of a Chicago-area retailer that deals with such lists said the minimum cost is $1,800. The more specific the information is regarding demographics, (age, sex, marital status, etc.), the more costly it is. "It is very expensive," the official said.

This particular company bids for the list from the U.S. Postal Service, which compiles it from change of address notices it receives.

Kidder Peabody acquires all Lloyd's assets

(Continued from page 1)

The deal, though, leaves Lloyd's parent, American Maize Products, with a book-value loss of $10 million, according to Edward Norris, vp and chief financial officer of the parent company.

Since American Maize put Lloyd on the block on April 6, its profits have continued to plummet. During the first six months of this year, Lloyd lost $4.5 million on sales of $49.3 million, which follows four years during which the chain lost an aggregate $17 million to $18 million.

"Under the circumstances this was the best offer available, " said Norris.

In American Maize's first-quarter statement it had said that it had "retained Wright Investors Service of Bridgeport, Conn., to seek potential buyers with the resources to purchase and operate the business as an ongoing concern."

American Maize, Wright Investors and Tom Cawley, president of Lloyd, declined to comment on whether the company will continue to operate in any form.

It also could not be determined whether Cawley or any group of Lloyd' executives is participating in this buyout. Over the past 18 months, Cawley has been bringing on his own management team to run the beleaguered company, and was said by knowledgeable sources to have installed a number of operational "systems" to plug the chain's profit leakage.

He was unavailable for comment about whether the most recent earnings loss report was anticipated in the company's long-term strategic plan.

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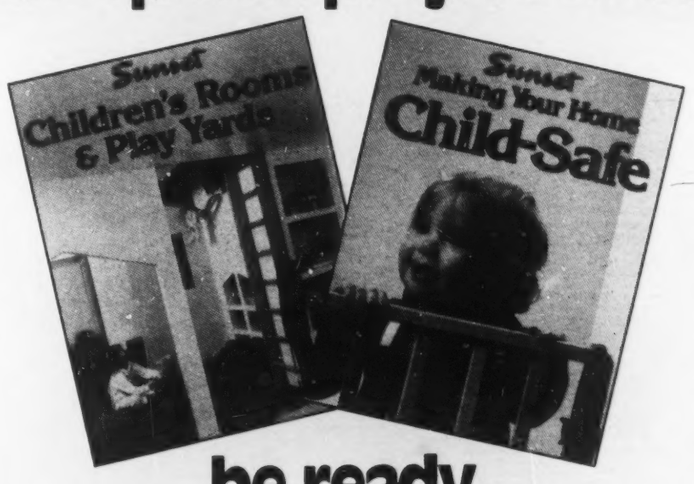

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